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SUBJECT: SINGAPORE SOVEREIGN WEALTH FUND SHOWS SHARP LOSSES

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¶1. Summary: Singapore's largest sovereign wealth fund lost 20 percent of its value in the last financial year ending in March, but has since made up much of the losses in the ensuing recovery in financial markets. In only its second annual report in its history, the Government of Singapore Investment Corporation (GIC) detailed changes in its asset mix toward alternative investments like natural resources and private equity, and plans to expand holdings in emerging markets. The United States is still GIC's largest destination for investments, though it recently divested half its multi-billion dollar investment in U.S. bank Citigroup. End Summary.

GIC Down, But On the Rebound

¶2. On September 28 GIC released its annual report, the second in its 28-year history after issuing its first report in 2008, disclosing an annual loss of 20 percent in its portfolio in the financial year ending March 31. GIC said it had sought to diversify its portfolio in recent years by broadening its asset holdings into private equity and real estate, but nevertheless suffered substantially in the global fall in stock markets and other assets. A reduction in public equity holdings in 2008 prior to the crash helped ease some of the losses. With the year's losses, GIC reported that the fund's average real (inflation adjusted) rate of return over the past twenty years fell from 4.5% to 2.6%. However, GIC noted that with the recovery in global markets since the end of March the portfolio has recovered more than half its losses.

¶3. GIC is the largest of Singapore's two sovereign wealth funds, tasked with investing a portion of the country's foreign reserves overseas. Although GIC discloses only that it manages in excess of US$100 billion in assets, estimates of its value have ranged as high as US$400 billion. A September 28 Wall Street Journal article quoted a source that GIC's portfolio currently stands at approximately US$188 billion.

Back into Equities

¶4. GIC's report said that although the fund reduced its equity holdings from 44 to 38 percent during the last financial year, it has since returned its stakes in public equities to pre-crisis levels. Alternative investments like real estate, private equity and natural resources increased from 23 percent to 30 percent of holdings. GIC also increased its cash holdings from seven to eight percent despite earlier speculation the fund would take advantage of the financial crisis and use its cash hoard to pick up distressed assets on the cheap (reftel).

U.S. still tops for investments

¶5. The United States continues to be the destination for the

highest percentage of GIC assets, with 38 percent of total assets compared to 34 percent in 2008. Its Europe holdings dropped from 35 to 29 percent while its exposure to Asia increased only slightly to 24 percent. GIC's report said the changes in investment destinations resulted solely from a selection of new investment opportunities rather than a concerted strategy of targeting geographical regions. Nevertheless, GIC Chief Investment Officer Ng Kok Song told a press conference that GIC's investments in emerging markets would likely increase as the fund expected global economic growth to be higher in emerging rather than developed markets.

¶6. GIC shed half its holdings of U.S.-based Citigroup earlier in September, realizing a US$1.6 billion gain. Its original US$6.88 billion investment in Citi early in 2008 had come under criticism after a sharp fall in the stock's value, but built-in downside protections in its preferred shares saved the fund from losses. GIC retains a 4.9 percent stake in the bank. GIC's 2008 investments in Swiss bank UBS have been less lucky with its nearly US$11 billion purchase still down by nearly half.

SHIELDS